

**December 13, 2001**

Council of the District of Columbia

**PUBLIC HEARING ON THE DC AUDITOR'S NOVEMBER 19, 2001 REPORT ON THE HOMESTEAD TAX DEDUCTION PROGRAM AND THE REAL PROPERTY TAX ADMINISTRATION'S RE-IMPLEMENTATION OF ANNUAL PROPERTY TAX ASSESSMENTS**

**Testimony of Herbert J. Huff, Deputy Chief Financial Officer, Office of Tax and Revenue, before the Committee on Finance and Revenue**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Herbert Huff, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). With me today are Henry Riley, Director of the Real Property Tax Administration for the Office of Tax and Revenue, and Thomas Branham, Chief Assessor for the District of Columbia.

We are pleased to present testimony on the District of Columbia Auditor's November 19, 2001, report on the Homestead Tax Deduction Program, as well as update you on the status of the Real Property Tax Administration's re-implementation of annual property tax assessments.

**Homestead Deduction Program and other Residential Real Property Tax Benefits**

On Sept. 24, 2001, the Office of the Chief Financial Officer (OCFO) transmitted its official response to the Auditor's draft report. We readily acknowledged that the homestead program was in need of improvement. OTR has, in fact, been working systematically to implement many of the same improvements that appeared as recommendations in the Auditor's report. We openly shared with the Auditor our history, deficiencies and plans for long-term solutions. To that end, OTR has invested significant resources in improving real property programs, including staff reorganizations and major adjustments to department operations, systems, and legislative changes. At the same time, OTR has conducted the normal real property tax operations that produce more than \$700 million in annual revenue to the City.

While we agreed in spirit with the Auditor's conclusions, the OCFO respectfully differed with several important points, including: (1) the magnitude of the problem, (2) the amount of tax revenue outstanding, and (3) the methodology by which this amount was determined. One of the primary differences in methodology concerned accounts of homeowners who improperly received the deduction but would have qualified had they filed the proper application. The Auditor included such accounts in its estimation of the revenue shortfall. Because we did not include these accounts in our estimates, we reported that uncollected revenue was likely between \$13 - \$16 million over the three-year period covered in the audit.

Our response to the Auditor's report in its entirety is attached; therefore, I will not consume the Committee's time by reiterating those statements in full. However, there are several points I would like to make regarding key aspects of this program, and I will provide several examples to illustrate how far OTR has come in improving the homestead program over the years.

Overall, OTR has probably dedicated more time and resources to evaluating and upgrading the homestead program than any other customer-oriented program at the agency. Many improvements to our operations, staffing and automated systems have been made during and following the period covered in the audit (1997 to 2000).

To build effective owner-occupied residential property tax benefit programs, it is important to understand the scope, as well as the complexity, of properly administering such programs. The Class 1 tax rate, housing credits, and the homestead and senior citizen tax deductions are important benefits for our residents. In our zeal to clean databases and save revenue, OTR has remained mindful of the common circumstances when a senior citizen, for example, would qualify for the program but has failed to file the proper form. OTR has tried to work with these individuals to update their records and prevent their removal or the assessment of penalties and interest.

The District is not alone in the homestead challenge. Most jurisdictions across the nation with homestead programs have similar resident compliance and administrative “tracking” problems. The District’s difficulties administering the homestead program were compounded by not having a principal residence (domicile) requirement. We would like to thank the Council for passing the Homestead and Senior Citizen Real Property Tax Deduction Act of 2001, which streamlines homestead program administration and provides a definitive principal residence requirement. Under the new act, OTR is authorized to require homestead claimants to submit their driver’s license or voter registration card. If the home address on these documents matches the property address, OTR may determine that the owner is domiciled in the District and the subject property is his or her principal place of residence.

There are approximately 90,000 real properties in the District receiving some form of residential owner-occupied real property tax benefits, out of 126,000 total residential parcels. The status of owner occupied residential benefits usually changes at two major times: (1) at the time of property transfer, and (2) when the owner moves out and rents without selling the property. We have worked over the last several years to develop our systems and processes to more effectively review accounts in these two categories.

In May of this year, OTR implemented a new process with our land records management system and our tax billing system. Through these systems and a homestead application tracking system, ownership is changed on all accounts within two weeks of transfer. Homestead benefits are removed if the appropriate application is not filed at the time of transfer. Additionally, we recently gained the cooperation of the District of Columbia Land Title Association in these efforts.

### **Real Property Transfers**

In any given year, there are about 5,500 residential real property transfers. Thus, 6% of the total homestead universe is audited annually in this function. Over the last three years in the normal course of business, our homestead section has removed 10,600 properties from the program for revenue protection of \$5.1 million. With the recent elimination of the 5-year filing requirement, we have mailed and are processing 20,000 re-confirmation applications in calendar year 2001. We are poised to mail another 20,000 re-confirmations in calendar year 2002. Thus, more than 57% of the homestead universe will be reconfirmed or have benefits removed by the end of next year. We are able to accomplish this only through the capabilities of our new systems and enactment of new laws.

### **Expiration of Eligibility**

The next major category of benefits change is when an owner moves from the property without selling it and rents the property. This circumstance has been and continues to be a challenge for our auditors. However, we are optimistic that, with the principal residence provision in the new law and the linking of our data systems, we will have greater success monitoring these types of accounts. For example, in this past year we have removed, billed, or are ready to bill approximately 6,100 accounts for prior year taxes. We constantly edit and analyze accounts and will continue to remove benefits and bill those accounts with no response to multiple mailings, including returned mail.

Additionally, we are currently posting suspect account lists on the Internet, which property owners can check at [www.cfo.dc.gov](http://www.cfo.dc.gov). Also, we will soon be updating the assessment information with homestead data so that every property owner can check the status of their accounts for each tax year.

In the last month, OTR also has mailed 2,000 vacant and abandoned property confirmation notices, and we have systems in place to receive regular updates from the Department of Consumer and Regulatory Affairs’ vacant and abandoned housing data files.

In summary, OTR has placed heavy emphasis on the homestead program in recent years and especially this past year. We are pleased to report that:

- Approximately 12 additional auditors and technicians have been devoted to the homestead program in the past year;
- Prior to the audit, OTR had already collected \$16 million in real property tax owed;

- Through OTR's Integrated Tax System (ITS), a data warehouse component is being created to link telephone account data, motor vehicle registrations and licenses, voter registration, income and business tax files, and vital statistic records for audit purposes;
- OTR designed and began linking databases as early as 1999. In May 2000, OTR began using the RPT2000 system and specific homestead and senior citizen indicators were developed. These efforts will be further perfected with the full implementation of the ITS system in 2002;
- OTR is working closely with the Department of Consumer and Regulatory Affairs to identify and address properties that are vacant and abandoned. We also share data with several other agencies, including the Department of Motor Vehicles and the Office of Vital Statistics; and
- OTR's real property information on the Internet has grown by leaps and bounds in the past year. The site now offers dozens of forms and is extremely active, user-friendly, and popular with our customers.

### **Return to Annual Assessment**

This year, the Council enacted legislation phasing out triennial assessments and returning the city to annual real property assessments. This change, later adopted in the Fiscal Year 2002 budget, was made to ensure a more uniform and equitable assessment process and to allow the city to meet its statutory requirement of properly assessing properties at 100% of their estimated market values.

Under the old triennial system, residential and commercial real properties in the District were assessed every three years, with any increases in real property taxes staggered over a three-year period. The new law provides that property in the midst of a three-year assessment cycle will be allowed to complete that cycle before annual revaluations begin.

OTR is continuing to implement a multi-faceted conversion plan to ensure a smooth transition. The plan includes:

- Outreach and education to help District property owners understand the process;
- Keeping the District's real property assessments adjusted with changing market values;
- Allowing more tax revenue for the District on an annual basis in a rising market;
- Enabling more buildings to be reassessed equitably with existing and surrounding properties; and
- Ensuring greater equalization of the real property tax burden throughout the District of Columbia.

In addition, the Real Property Assessments Division (RPAD) is working to achieve proper staffing levels for conducting annual assessments. There are approximately 10 assessor and supervisory assessor positions that were recently filled or are slated to be filled.

RPAD's new Computer Assisted Mass Appraisal (CAMA) System – Vision – will be of tremendous benefit to OTR and District taxpayers. This system is now being adapted to the existing market in the District to properly appraise property – activities referred to as modeling and calibration. These steps must be completed for each major group of properties: residential, vacant land, commercial and condominium/coops.

The assessments division is also gathering new data and reconciling existing property information with real estate market changes to further ensure fair and accurate assessments.

### **Conclusion**

In conclusion, I would simply like to reassure this Committee and the Council of OTR's commitment to the expansion and perfection of real property systems and programs, and to continuing to improve our levels of service to customers.

I appreciate this opportunity to testify and will be happy to answer any questions you may have.